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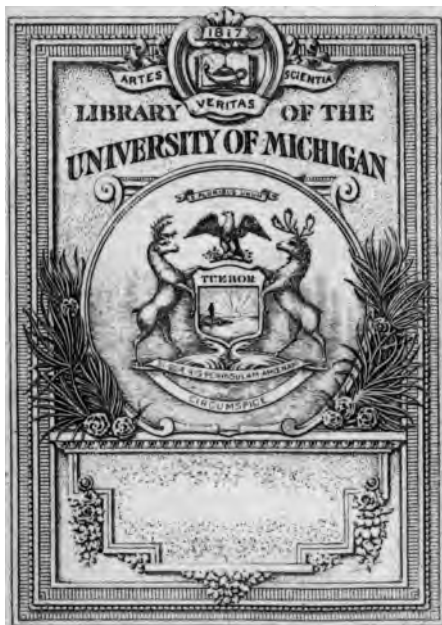
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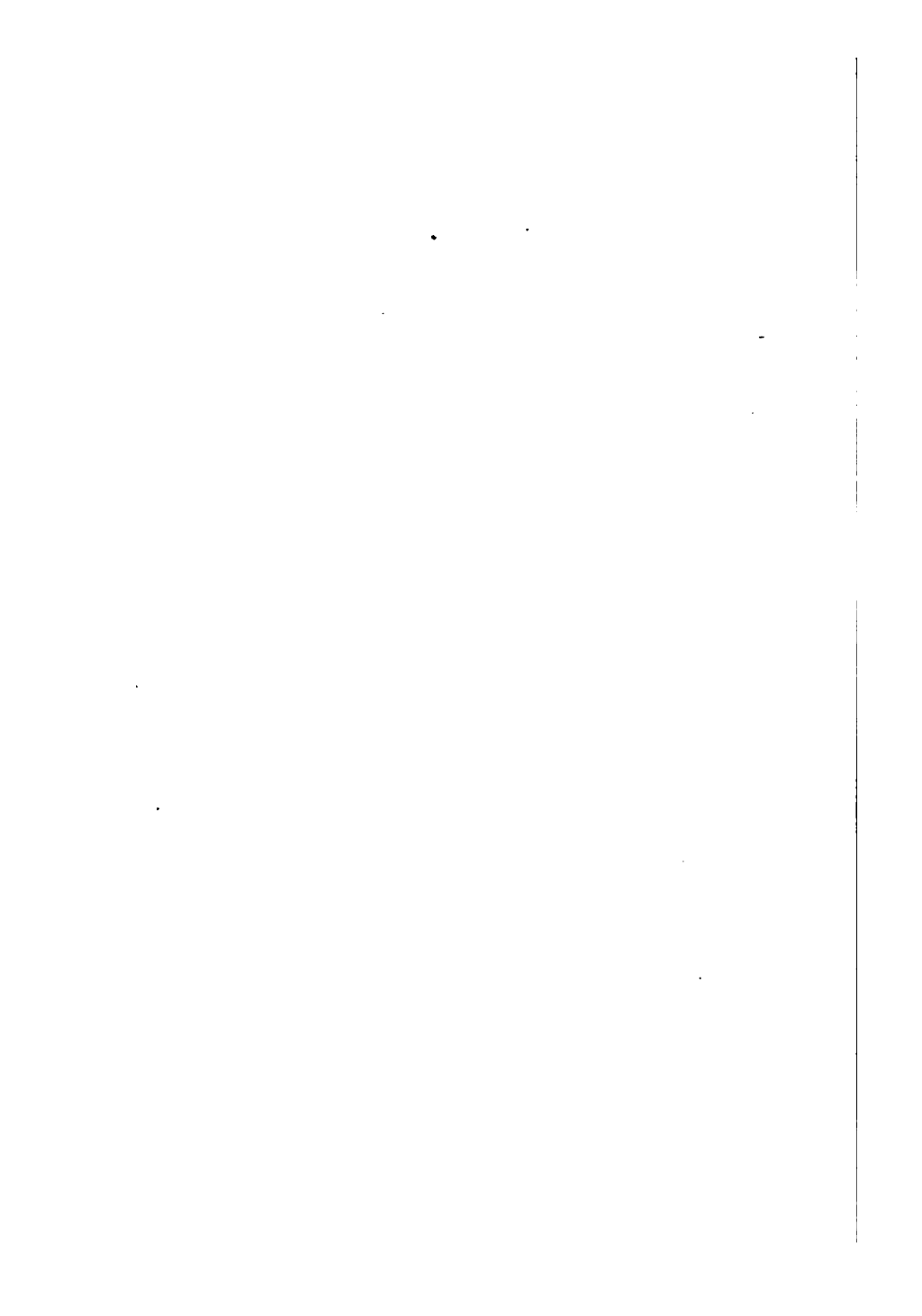
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**AMERICAN CITIZENSHIP AND  
ECONOMIC WELFARE**





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ECONOMIC WELFARE**

**J. H. FURST COMPANY, PRINTERS,  
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**AMERICAN CITIZENSHIP  
AND  
ECONOMIC WELFARE**

**THE WEIL LECTURES, 1919,  
DELIVERED AT THE UNIVER-  
SITY OF NORTH CAROLINA**

**BY**

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# THE WEAL OF THE NATION





## AMERICAN CITIZENSHIP AND ECONOMIC WELFARE

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### I

#### THE WEAL OF THE NATION

In the "Memorials of his Time" Lord Cockburn tells us that when in the winter of 1800 Dugald Stewart, the biographer of Adam Smith and the titular successor of Adam Ferguson in the Chair of Moral Philosophy in the University of Edinburgh, delivered his first separate course of lectures in Political Economy, the early reaction of the public mind was a sense of impropriety: "It was not unusual to see a smile on the faces of some, when they heard subjects discoursed upon seemingly beneath the dignity of the Academical Chair. The word *corn* sounded strangely in the Moral Class, and *drawbacks* seemed a profanation of Stewart's voice."<sup>1</sup>

In other times, the attempt of a political economist to give counsel in the matter of American Citizenship, under the auspices of a foundation finely conceived and notably maintained, might invite like experience. Civic idealism, political integrity, unselfish public service—these are the abstractions proper to the office, not affairs of dollars and cents, even though presented in the spiritualized garb of economic productivity, industrial peace and fiscal justice.

O Trade! O Trade! would thou wert dead!  
The Time needs heart—'tis tired of head: 3

It would be sheerest affectation to venture such apology in the present juncture of our country's life. In baldest terms, the world has suffered a supreme cataclysm. The United States has been involved in this convulsion—by the pressure of direct interest as by the links of world solidarity. The first acute phase over, we face the reckonings of adjustment and the penalties of aftermath.

The issues at stake are nothing less than the continued possession and future enlargement of those satisfactions and opportunities which democratic institutions, bountiful nature and a resourceful population have permitted us heretofore to enjoy. We have seen the unexpected withdrawal from accustomed economic life of millions of producers, and their equally unexpected return. We have suffered the diversion of industrial capital from peace production to war requirement, and an abrupt reversal of the process. We have imposed great burdens of taxation; we have incurred huge volumes of debt; we have expanded our circulating medium; we have inflated our banking credit.

Business has been subject to feverish stimulations and industrial intensities. War brides have conferred the beatitudes of excess profits upon enterprisers, and of over-time payments upon wage-earners. The laboring world has tasted the pleasantries of larger expenditure and has

glimpsed vistas of ampler income. Spirits of unrest have been loosed in remote parts of the world, and the swift contagion of industrial radicalism has threatened established canons of economic relativity and social development. In a word, the economic structure has been shaken to its base, and the world stands hesitant and anxious as to whether the subsiding tremor is the prelude to renewed convulsion or to returning stability.

These are the days in which earnest men—young men—ask for rules of conduct. The modes of right living and the ideals of civic obligation are at all times intertwined with the standards of economic duty. There is a fine sanity in the traditional scope of Moral Philosophy exemplified in the teaching of Adam Smith himself, as dealing in turn with Ethics, Politics and Economics—man's relation to God, to the state and to his associates.<sup>3</sup> But the accent of wise teaching is not always uniform. In times past men groped,

now for ethical counsel, now for political precept; in our own day the imperious call is for economic guidance.

May I add that this is pre-eminently true of the young men of the South. In economic affairs, your problems are greater, your opportunities are larger, your responsibilities are more immediate. Barely emerged from the shadow of a great economic change, the course of economic diversification still in early stage, a land and a people whose powers have not been imagined—you face tremendous potentialities awaiting the touch of leadership and knowledge to spring into force.

Urgent as is the summons for positive action rather than for sentimental appeal, let us forego the hope of economic necromancy. Sir William Osler has spoken of the desire to take medicine—in particular, bitter tasting medicine, he might have added—as a deep-rooted infirmity of the human species.<sup>4</sup> A like obsession of the popular mind is that economic philosophy



and its devotees, properly encouraged, may be relied upon to produce a curative white rabbit from a professional silk hat. This expectancy even penetrates into higher places. Henry Adams records how "he plunged deep into statistics" and how "Nothing came out as it should." "One revelled at will in the ruin of every society in the past, and rejoiced in proving the prospective overthrow of every society that seemed possible in the future; but meanwhile these societies which violated every law, moral, arithmetical, and economical, not only propagated each other, but produced also fresh complexities with every propagation and developed mass with every complexity."<sup>5</sup>

There is, alas! no prospect of trade secrets to be imparted, or ready-to-use cures to be dispensed. The stock in trade of the economist is not a bag of tricks, but only a mental habit built of the stuff of which common sense is made—orderly thinking, acquaintance with a wider range

of related facts in balance of intimacy with local minutiae, some historical equipment and a profound sense of the organic interdependence of the business world.

It is in something of this spirit, in fulfillment of the academic office with which you have so greatly honored me, that I shall venture to examine the present duty of the American citizen in securing and enlarging the economic well-being of the nation. That duty is indeed manifold. But out of its wide range three conspicuous obligations loom forth: participation in economic production, the relation of employer and employee, and equitable contribution to the support of the state. In the successive meetings which I am to have with you, I hope to consider in turn the citizen as producer, as employer and as taxpayer—each in relation to present conditions and with respect to individual obligations.

Like an earlier economist, John Craig, writing a century ago at the close of an-

other world-war, in troubled wonderment that Peace instead of assuming "her genuine character of parent of industry and nurse of commerce" appeared as "a demon of destruction," I can only plead: "In what I have to offer on this difficult and important subject, I am not aware that I shall bring forward any view that will have novelty to recommend it, far less any specific nostrum from which a speedy recovery may be anticipated; though I hope to correct some misapprehensions that have prevailed, and shall endeavor to combine whatever in the several theories seems to be founded in truth."<sup>6</sup>

A careful historian of economic thought has pointed out that the concept of national wealth as an annual fund rather than as an accumulated stock marks the transition from older economic philosophizing to modern economic opinion.<sup>7</sup> Influenced by the physiocratic doctrine of an annual "reproduction," Adam Smith insisted that

it is the annual industry of the nation "which originally supplies it with all the necessaries and conveniences of life which it annually consumes." A century and a half of economic thinking has made no change in this simple axiom, and the homely phrasing that according as this annual produce "bears a greater or smaller proportion to the number of those who are to consume it, the nation will be better or worse supplied with all the necessaries and conveniences for which it has occasion"<sup>8</sup>—gives a proper starting point for our inquiry.

There is no need of harking back to that naive Crusoe philosophy—peopled with primitive fisherman and thrifty sluice builders to which economists become metaphysicians,<sup>9</sup> or men of affairs turned sociologists<sup>10</sup> are fond of reverting and at which a keen mind has jeered so genially as "conjectural history"—to see that the first summons is upon Father Work and Mother Earth.<sup>11</sup> The wastages and

losses of the war years have been of goods and services begotten of the soil and its contents by the " skill, dexterity and judgment " <sup>12</sup> of our man power, applied under gifted leadership with the aid of ingenious devices. Only by the same methods can the gap be repaired and the larger dividend—if there is to be one—supplied. There is neither short cut nor royal road. Emerson bewailed that Political Economy was not reducible to lyrical form,<sup>13</sup> but no lilting verse would change its work-a-day burden.

Both as to Labor and as to Land the United States has suffered far less than any of the great belligerents. Our man power has not been decimated and our soil has not been laid waste. During the period of hostilities, our productive force in relation to national well-being may be regarded as reduced to the extent that workers were withdrawn from industry for military service or for the production of war supplies—uncompensated by increased

effort, lessened unemployment or diminished consumption. Of our estimated total population of some 100,000,000, productive labor—represented by the number of men, women and young persons engaged in gainful occupations—is roughly 40,000,000.<sup>14</sup> Of this total there were called to the colors during the period of belligerency some 4,800,000 and there were absorbed in specialized war industries another 8,000,000.<sup>15</sup> As against this aggregate diversion of 12,800,000 there was increase of labor power—primarily in the war industries but to some extent in the general field—due to speeding up effort, overtime work and virtual conscription of the idle, the leisured and the parasitic. No quantitative data are here available and we must venture an intelligent guess rather than attempt a formal estimate. If we assume a compensating influence from these quarters of 25 per cent., it would follow that during the war period our annual peacetime production was impaired on the score

of labor power by the withdrawal of some 9,500,000 workers.

Since the signing of the armistice, the process of demobilization—military, naval and industrial—has gone on swiftly. On May 1, 1919, there still remained in the military and naval services over 2,000,000 men and in war industry perhaps some 250,000. Taking into account a gross toll, direct and indirect of 250,000 war casualties, it is likely that the available labor force of the nation was at that time about 2,500,000 less than at the outbreak of hostilities with tendency towards further rapid reduction of the differential. By October 1, 1919, this number had declined to approximately 500,000.

If we turn to the earth and its treasures—agriculture and extractive industry—the exhibit is likewise less depressing than might be supposed. Our soil has not been laid waste, our mines have not been gutted, our forests have not been fire-swept. On the contrary, production has gone forward

with tremendous pace and the war-time output of fields and mines has reached fairly staggering proportions. It is likely there has been some cropping with neglect of upkeep in the form of fertilizing and rotation, and some over-exploitation with prodigal disregard of future development. But on the other hand there has been a great extension of cultivated areas, an intensive development of theretofore unprofitable uses and a productive working of undeveloped deposits. In the sense in which agronomists and geologists place ultimate limit upon the earth's resources, we are definitely the poorer for every bushel of food material and every ton of mineral wealth taken from the earth to meet war needs. But in relation to current production we emerge from the war with fields and mines ready to pour forth their bounties not only as before, but in the larger measure of extended use and of stimulated production.

Men work neither bare-handed nor with-



out leadership. The nation's labor force will be productive, its natural resources will be transmutable, according as instruments of production—mills, factories, stocks of materials, fluid capital—abound, and as directive intelligence is obtainable. As to the second—the Business Enterprise of our economic text-books—whatever change the war has wrought has been largely gain. A swift process of natural selection has tested business ability, uncovering new talent here, discarding proprietary interest there, sobering by greater responsibility and dignifying by larger obligation. Probably as never before the nation is equipped with captains of industry ready for return to old courses or for venture into uncharted seas.

Much more difficult to estimate are the effects of the war and of its abrupt ending upon the economic capital of the nation. Certain tendencies, however, stand out clear. As industry passed from peace to war footing, ploughshares were beaten

into swords, with attendant waste, cost and delay. During the war, moreover, the normal processes of capital renewal and capital formation were suspended. Mills and factories underwent depreciation, railroads and terminals suffered wear and tear without customary replacement, in order that the materials and labor needed for such purposes might be used for war projects. More than this, the unconsumed, that is, the " saved " part of the industrial product ordinarily applied to the extension and improvement of production were gulped in the same ravenous maw.

Rough criteria of these changes may be sought in the relative amounts of capital annually absorbed by building operations in the United States, and in the expenditures of the national government before and during the war.

In 1917 the outlay for building operations in 284 cities was \$816,609,111 against \$1,137,160 in 1916 or a diminution of 28.2 per cent. and against an average of \$990,-

366,614 in the eight year period, 1909-1916, or a diminution of 17.2 per cent. Despite the fact that 1917 building represented in large part war construction, we must go back, to find anything like the same contraction of operations, to the post-panic year 1908 when, with 206 cities reporting, the aggregate outlay was \$730,081,871, rebounding to \$1,013,785,972 in 1909.<sup>16</sup>

The normal expenditures of the Government on a peace basis for the fiscal years 1917 and 1918, it is estimated, would have been \$1,000,000,000 for each year. The actual expenditures for the two years were some \$15,000,000,000, making the total estimated war expenditure up to June 30, 1918, some \$13,000,000,000.<sup>17</sup> But only three months of the fiscal year 1917 were war months, and on July 1, 1918, the Government was only beginning to reach its full stride in war expenditure. If it be assumed that the expenditures of the Government on a peace basis would have been at the rate of \$1,000,000,000 a year, then the gross

cost of the war from April 6, 1917 to June 30, 1919 is estimated to have been \$30,177,000,000 as compared with a probable peace expenditure of \$2,250,000,000.<sup>18</sup>

Two obvious considerations suggest themselves in connection with such exhibits. An appreciable part of government war expenditures—docks, ships, housing projects—are either productive investments or can be salvaged and converted into peace purposes, becoming in so far a form of new capital. The Secretary of the Treasury has lately estimated that of the government's war expenditures during the fiscal year 1918, nearly \$6,500,000,000 or some fifty per cent. were of this character.<sup>19</sup> More important, a large part of that which the Government has taken in taxes or borrowed in loans comes not from capital but from augmented net income—consequent upon greater effort in production and greater restraint in expenditure. Such enlarged income is, of course, potential peace capital, and one

of the economic tragedies of the war is that more of the results of war toil and thrift do not inure to the lasting benefit of society. But to the extent that war earnings are used for war needs, encroachment upon the country's industrial capital is reduced.

We have no means of determining what part of the capital losses of the war have been corrected in this manner by new capital formation. The ordinary index of relative scarcity or abundance—the money rate—has been so deflected by public borrowing, credit expansion and direct control—as to offer little aid. If economic history count for anything it will surely hereafter appear, when in the course of the business cycle years of famine succeed years of plenty—that some part of the depression is imputable to war wastage. Our present concern is with the short swing and as to this, so much at least may be ventured: that, whether by reason of the greater efficiency of our banking mechanism or in

consequence of our new position as a creditor nation, the supply of capital now available for business resumption is ready and ample.

With our labor force but slightly reduced, with our natural resources unimpaired, with our industrial leadership quickened and with a seemingly adequate capital supply—what is the menace to which our economic welfare is exposed? It consists largely in the inability of the business world to absorb quickly and successfully the shocks and strains, first of war and then of peace. Like some great complex machine—jarred, jolted, strained, put to strange uses, sections taken apart and relocated—the productive mechanism is functioning badly. All the essential parts are present; but there is creaking and jerkiness, uncertainty as to what is amiss, fear lest outright breakdown follow.

The disorder is thus psychological rather than physical. It is akin to that form of

shock-caused paralysis wherein sound organs and healthy members function imperfectly because the central intelligence, jarred into disorder, fails to correlate and coördinate.

For this disorder hortatory invocation will, I take it, prove no corrective. There is something touchingly naive about much that is said and done in the domain of industrial hypnotics. Like the "sunshine societies" which were to revive business from the post-panic depression of 1908, and the "business as usual" propaganda which was to avert war-time curtailment in the autumn of 1914, we hear now of price reduction by common agreement and of business resumption by an infectious optimism. We shall never raise ourselves by tugging at our bootstraps in this manner. Mental depression is to be relieved less by rhetorical suggestion than by direct reaction to external stimuli. We may "rezoloot till the cows come home"<sup>20</sup> and the economic transition from war to

peace will continue painful and costly unless definite policies be initiated and specific remedies be applied, in direct correction of the arrest which has descended upon the business world and of the depression which threatens its further course.

The definite measures which economic analysis suggests as likely in this juncture to make for business stability are (1) consistent government policy, (2) courageous deflation of credit, (3) retrenchment in public and private expenditure and (4) arbitral adjustment of industrial disputes.

(1) The essence of business enterprise is ability to anticipate and provide for prospective events. This skill in "discounting"—seen in almost uncanny form in stock and produce exchange operations—figures in ordinary business affairs. The manufacturer buys his materials now, with an eye to what the corresponding costs are likely to be a six months hence. He fashions his wares with respect to de-

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mands that will appear hereafter. He determines his cost sheets and fixes his price schedules upon an estimate of prospective operating changes. In a word he plans, fashions and ventures in the light of his insight or forecast as to what impends.

If these uncertainties are the normal risks of business activity he is inspired by the prospect of competitive gain. To anticipate more accurately, to provide more successfully means larger sales and greater profits and these are the lure of legitimate enterprise. But if the future be clouded and uncertain, passing from the ordinary dynamics of modern social life to a confused vacillating riot of governmental disturbance and administrative change, business will halt and enterprise mark time.

This is the plight in which the business world now finds itself. The enterpriser released from the pressure of war industry desires instinctively to resume accustomed business life. If a merchant, his inclina-

tion is to turn from depleted shelves and hand-to-mouth replacement to early ordering and large buying. If a manufacturer, his impulse is to reconvert his plant as swiftly as possible, to place contracts for materials, to assume financial commitments, to reassemble his working body and to disperse his selling force over the seven seas.

But at the very start his wings are clipped and his feet lead-weighted by doubt as to the trend of governmental policy. As to materials, is a free market to be re-established or is public price fixture in some form or other to continue? As to capital, is war-time inflation and credit rationing to persist or is a period of deflation in sight? As to labor, are wages to accommodate themselves to a lower level of commodity prices or are newer standards of subsistence to be maintained by governmental intervention? Beyond these are specialized alternatives. Are the railroads to continue under government

operation or to be returned to corporate control? Is the newly created marine to be subsidized or to remain independent? Is the protection of war blockade and controlled tonnage to be continued by higher tariffs in aid of war stimulated industries?

Direct and immediate as is the influence of each such policy upon industry, the important consideration to the business man is not so much as to which particular policy be adopted—but rather that he be advised as to the nature of the choice and that the choice having once been made there be no abrupt and erratic departure therefrom. This does not mean artificial stability. The enterpriser is quite prepared to cope with the ordinary risks and uncertainties of the business cycle. That which lies beyond his ken and rather than struggle with which he is likely to remain inactive are the vagaries of political opportunism, the shifts of partisan jockeying and the uncertainties of administrative ineptitude. In times such as these gov-

ernments like individuals will in many particulars feel their way. Nor is the business man clamorous for a final undeviating chart. What occasions resentment and begets stagnation is doubt and change made necessary not by the complexities of swift moving events but by the mean purposes of political manœuvre and by the petty gains of party strategy.

(2) Of the various uncertainties with which the business man is at this time plagued, the most immediate is the range of prices. Unrest in the labor world, restraint in the consuming public, caution among retailers and jobbers, hesitation and check in manufacturing—are all traceable to bewilderment as to the price movement: the cause of the past rise, the duration of the present stubborn resistance to fall, the occurrence and extent of the future decline.

The monthly index number of wholesale commodity prices compiled by the U. S. Bureau of Labor rose, as compared with

100 for 1913 prices, from 182 in May, 1917, to 219 in July, 1919—the latest date for which figures are available—or 20.3 per cent. The movement in retail food prices was from 151 in May, 1917, to 192 in August, 1919, or 27.2 per cent.<sup>21</sup> Since August 1, there has been some recession, wholesale commodities, according to Bradstreet's being 2.6 per cent. lower on September 1, and food-stuffs, 9.2 per cent. lower on September 25.<sup>22</sup> But the drop has only partly overcome the 1919 advance in wholesale prices and has actually left prevailing food-stuff prices higher than the war range.

A full analysis of the price movement of the past two years would bring upon the table many factors the respective contributions of which are often debated or challenged, and always intricate and complex. But that some part of it is the result of credit inflation is the common opinion of economists. The "money in circulation" in the country, that is the

general stock of money, less the amount held in the Treasury as assets of the Government and the amounts held by the Federal Reserve Banks and Federal Reserve Agents against issues of Federal Reserve Notes—has increased from \$4,736,841,963 or a per capita circulation of \$45.61—on May 1, 1917, just before our entry into the war, to \$5,841,026,528, or a per capita circulation of \$54.28 on July 1, 1919.<sup>23</sup> In other words, the country is carrying on its business with approximately twenty per cent. additional circulating medium.

As to the increase of deposit currency: the individual deposits subject to check of the national banks increased from \$6,627,833,000 on May 1, 1917, to \$8,479,747,000 on June 30, 1919—something more than \$1,850,000,000. To this must be added the increase in like deposits of the state banks and trust companies, as to which no final data are now available. Making the most conservative allowance, it is safe to as-

sume that the deposit currency of the country is more than \$2,000,000,000 greater than at the time of our entry into the war two years ago.<sup>24</sup>

Not only has the bank credit of the country increased in volume, but it has undergone important change in texture and in structural support. At the outbreak of the war the ratio of gold reserves to net deposits and Federal Reserve Note liabilities combined was 80 per cent.; on July 18, 1919, the corresponding ratio was 50 per cent. At the outbreak of the war the Federal Reserve Banks held in their portfolios \$104,000,000 of discounted bills of which \$84,000,000 had been bought in the open market. On July 18, 1919, the Federal Reserve Banks held \$2,200,428,000 bills, of which only \$372,353,000 were open market purchases and of which \$1,579,728,000 were war paper—the notes of member banks and other customers secured by government war obligations.<sup>25</sup>

It is a seemingly inevitable consequence

of war financing, be its chief reliance borrowing or taxation or a rational combination of the two—that there is injected into the exchange mechanism of the country a volume of fiat credit or a mass of additional circulating medium in excess of that required by the increase in production or by the greater activity of trade.<sup>26</sup> In the experience of the United States this tendency has been aggravated by our policy of anticipatory borrowing taking the form of the creation of huge volumes of bank credit as government deposits in payment of Treasury certificates of indebtedness. Moreover the continuation of this policy of anticipatory borrowing, even after the suspension of active hostilities, has operated to delay and counteract the natural course of credit deflation and price decline.<sup>27</sup>

It is of vital importance to the labor world, to business circles and to the general public that in the borrowing operations in which the government is about to



engage there should be no further recourse, direct or indirect, to such methods. Further inflation once checked by cessation of credit-paid borrowing, we should enter promptly and courageously upon the course of deflation. This will entail contraction of note circulation and liquidation of rediscounted war paper, by adequate taxation, savings-paid borrowing and stiffened discount rates. The process may be gradual; but it should be begun early and continued steadily. To assume that by any other method can general prices be substantially reduced and the supersensitiveness of an expanded credit situation be eliminated is to neglect historical precedent, theoretical analysis and contemporary evidence.

(3) A nation at war spends lavishly. The need is so dire, the urgency so great, the revenue so ready that old canons of caution and restraint are cast to the winds, and public disbursement comes to be limited only by the physical power to spend.

It is not easy to revert to the older caution, even with the return of peace. Like some Lord Bountiful rioting with free purse for a season and then face to face with a daily stint, the country finds it hard to forego accustomed largeness—even to discontinue tolerated looseness. Quite apart from the carry-over of war contracts and commitments and the continuing charge of war indebtedness, this heritage of easy expenditure is a grave fiscal penalty of the war. No exchequer could pass from a pre-war expenditure of \$1,000,000,000 a year to a war expenditure of \$1,000,000,000 a month, and not develop habits of prodigality and laxity—sadly inconsistent with a period of after-war adjustment.

Reckon as we will, industry and industrial income face a long period of drastic taxation. The business man will not be crushed by the reality, but he is not exhilarated by the prospect. He faces the burdens of peace time as he did those of war time, resignedly—it is too much to hope,

uncomplainingly—in so far as he is convinced that they are necessary in amount and equitable in distribution. Let him see evidence of this in curtailment and economy, and he bends to his task with grim acceptance passing into venturesome enterprise.

The complement of public retrenchment is private thrift. Each policy is likely to excite outcry. If Congress provide for no new postoffices nor customs-houses, what of the bricklayers and carpenters; and if more of our wages and earnings are put away as savings, how are mills to resume and merchants to prosper? The answer is as old as Bastiat's window-glazier.<sup>28</sup> The diversion of income from spending to saving means not lessened production, but changed production. The dollars and the pennies that find their way into deposit accounts will be used by the banks in loans, direct or through bond purchases, to manufacturers, merchants, farmers, railroads, public utilities and industrial enterprise

in general. Demand will be created and business stimulated quite as much as in the case of direct expenditure; but the ultimate outcome will be much to the advantage of the saving policy. By the mere deferring of the enjoyment it becomes possible for desirable addition to be made to the nation's industrial capital. Even though the war years have not wrought a crippling impairment of industrial plants, there has been abnormal depreciation suffered through the intensity of war production and the disregard of upkeep. The classical doctrine as to the advantage of saving has been questioned in more recent economic writing on the score that spending both stimulates a higher standard of life and averts congestion of production goods.<sup>29</sup> Whatever possibility may exist in this direction under normal industrial conditions does not obtain in a post-war period after the capital equipment of the country has been possibly starved and certainly unaugmented.

(4) The resumption of industry will be hastened or delayed, and once resumed will gain in activity or suffer check—according as the prospect of labor disturbance threatens or its presence dislocates. In a succeeding meeting, I hope to consider certain notable features of the present labor situation and the obligations imposed upon the state and upon the citizen. At this time I am concerned only with the direct dependence of business resumption upon labor adjustment.

It is an amazing instance of the proneness of the American mind to pursue the mote and neglect the beam, that at a time when feeling is intense and widespread that wars and alarms of war must at any cost be averted by the establishment of international tribunals, there should be only a vague and uncertain demand for the prevention of industrial war within the country by means of arbitral intervention. War is as definite an anachronism in industrial relations as in international affairs. Its needlessness is as gross; its demorali-

zation as wide; its penalties as acute. For employers and workmen to fail to adjust differences as to wage rates or conditions of employment without resorting to primal methods, euphemistically termed "economic weapons," and for an industrial society to tolerate such failure with its attendant social injuries and industrial wastes—is economic barbarism. In ordinary times the business world, rather than forego its outworn creed, may persist in this costly bungling, and society may acquiesce. In a period as critical as that which we now confront, with the welfare of the nation for a decade to come in the balance, some part of that moral force which is relentlessly driving the nations of the world into a greater society dominated by justice may surely be invoked to impose a reign of law upon the opposed elements of the industrial world. A great social achievement of the war period was the general suspension of industrial conflict by generous concessions on both sides. Democracy may properly demand an extension of

this industrial "treuga Dei" over the period of after-war adjustment, perhaps even into the years beyond.

Wise statesmanship, sound finance, public and private economy, industrial peace—these are after all common rubrics of an old homily. But perhaps to the political economist, no more than to any other free-born American citizen is it forbidden upon right occasion to "calmly drink and jaw."<sup>30</sup> You who have listened so patiently must seek comfort in Thackeray's promise that "The Reverend Mr. Malthus shall be burned annually, instead of Guy Fawkes"—when Punch is king.<sup>31</sup> Even two centuries ago, when giants stalked in the land—"the sagacious Petty and the experienced Child, the profound Temple and the intelligent Davenant," in Chalmers's discriminating phrases<sup>32</sup>—the *Spectator* could class political arithmetic as "an art of greater use than entertainment."<sup>33</sup>

There may be a shorter road to Robin Hood's barn. Napoleon entertained "utter

horror” of Political Economy, because “on such subjects he trusted to common sense.”<sup>84</sup> And even our own Daniel Webster protested, “For my part, though I like the investigation of particular questions, I give up what is called the science of political economy—if I were to pick out with one hand all mere truisms, and with the other all doubtful propositions little would be left.”<sup>85</sup> But Napoleon’s “common sense” and Webster’s “investigation” was each sufficient economic endowment of its own. To coarser clay—Malthus’s citizen “who has retired and whose ideas, perhaps scarcely soar above, or extend beyond his little garden, puddling all the morning about his borders of box”—there is no like escape. We may fall far short of John Adams’ gracious tribute to Daniel Raymond, “You have indeed cracked the shell of political economy and extracted the purest oil from the nut”<sup>86</sup>—but there will have been discipline and service in the endeavor.



7

## **THE LABORER'S HIRE**



## II

### THE LABORER'S HIRE

To those who fear that the occasional conflicts of economic inquiry and public opinion bode ill for the future of intellectual freedom in the social sciences, there is much reassurance in the changed attitude of constituted authority towards the study of popular unrest.

In 1794 Dugald Stewart, writing to Lord Craig in defence of the favorable sentiments he had expressed as to the French *Économistes* "most of whom are long since dead," added: "I have been so uniformly impressed with a sense of the importance of my situation, that among all the interesting questions which have, during the last nine years, divided our political parties, I have never introduced the slightest reference to any of them excepting in the single instance of the African trade, on

which I formerly expressed myself with some warmth;—and even these expressions I dropped from my course, as soon as it became matter of popular discussion.”

Even a generation later when the English mind was less perturbed as to “the French philosophers in general, and the tendency of their sceptical doctrines to corrupt the morals, and to poison the happiness of mankind,”<sup>2</sup> and within a few years of the time when political economy had attained such vogue that Maria Edgeworth could note that it was the fashion for “blue ladies to make a great jabbering on the subject”<sup>3</sup>—“Prize” Pryme, the first lecturer on Political Economy at Cambridge, recorded in his “Autobiographic Recollections”: “In my early courses I vindicated Brutus from an accusation of an usurious transaction preferred against him by Adam Smith in his *Wealth of Nations*. On its being suggested to me that this might induce a supposition of political bias on my part, I expunged the passage.”<sup>4</sup>

In the round century that has since passed, there has been successive reaction in the current estimate of economic study. This is evidenced by the changing epithet of the day. The "gospel of Mammonism,"<sup>5</sup> having lapsed into a chapter of "the history of political blindness,"<sup>6</sup> now appears as "a rich field for the activities of creative genius."<sup>7</sup> No one in these times—Bourbon or Bolshevik—would dare to discuss matters of social policy without regard to economic opinion. The economist may be damned as a professor or canonized as a lawgiver; he will not be neglected as an outsider.<sup>8</sup>

It would thus be a crude avoidance—both as a scientific requirement and as a practical service—to deny large place in any study of the present economic obligations of American citizenship to that which, unhappily enough, is described as "the labor problem"—or to refuse to do this in specific terms and with respect to recent events and to immediate prospects. There

is widespread, insistent concern as to what have been the changes which the war has wrought in the wage-earner's state, and as to what constitute the unstable elements of the present labor situation.<sup>9</sup>

Here again it is right to warn at the outset against any hope of ready-at-hand explanation or of panacea-like solution. In 1813 Robert Owen put forth his "New View of Society" with a far more comforting certainty: "The knowledge, however, which is about to be introduced will make it evident to every understanding, that by far the greater part of the misery with which man is encircled *may be* easily dissipated and removed; and that with mathematical precision he *may be* surrounded with those circumstances which must gradually increase his happiness."<sup>10</sup> Even when reminded by Francis Place of an Edinburgh Reviewer's use of the Malthusian argument in criticism there was no recession. "He tells me, as he has all along done," noted Place in uncomplaining

mildness, "that he has made no mistake but that I am 'ignorant'." <sup>11</sup>

In economics as in ethics and in politics the world needs its prophets—to scourge what is, to emblazon what might be—Leigh Hunt's "men who in their own persons, and in a spirit at once the boldest and most loving, dared to face the most trying and awful questions of the time." <sup>12</sup> But it needs too its slow, cautious students who shall search the problem with careful eye to what has gone before, who shall know and profit by what is happening elsewhere and who shall give guarded counsel as to remedy and treatment. This preëminently in discussion of the labor problem is the rôle of the political economist.

A reaction from war-time depression has been the consolatory proposal that a consequence of world convulsion is economic advance. Not only is recourse had to familiar social philosophizing—the theory of recurrent over-population, the theory of



social evolution and the theory of personal fortitude and industrial diversity;<sup>13</sup> but a considerable body of evidence is adduced in support of the contention that if not a condition, war is at least an incident of economic progress. Thus in Great Britain the testimony of the Ministry of Labour is that there has been a "steady decline in destitution during the war"—and a marked decline as compared with ante-bellum conditions.<sup>14</sup> In the United States the computations of the Bureau of Social Statistics of New York City indicate that the amount of general dependence in that city at the end of 1917 was only one-third of that existing at the end of 1914.<sup>15</sup>

It seems reasonably certain that for the immediate duration of the war, and in the area of belligerency rather than in the zone of hostilities, the volume of social dependence was reduced, and the well-being of certain working groups above the poverty line enhanced. That the same gain was achieved by the laboring world generally

is by no means as clear. To a very considerable extent the benefit of increased earnings was lost by rising living costs, extending in cases to outright net disadvantage. The United States Bureau of Labor Statistics has computed that the wages per hour in certain organized trades for which data have been collected were 33 per cent. higher in 1918 than in 1913 and 48 per cent. higher than in 1907, but that a far greater change took place in retail prices of food—the increase from 1913 to 1918 being 68 per cent. and from 1907 to 1918, 105 per cent. In other words, an hour's wages in 1918 purchased but 79 per cent. as much food as in 1913 and but 72 per cent. as much as in 1907.<sup>16</sup> Such comparisons must be further modified by allowance for more regular employment and for more overtime work in 1918 than in earlier years; but the general character of the exhibit is not likely to be thereby reversed.

For the long run, economic law holds the

bank. With the world struggle in its tense industrial aspect over, and labor facing the trials and strains of readjustment and reconstruction, the deep-rooted, traditional sense of mankind has again been justified: that war is a bitter social calamity, that it works peculiarly to the economic injury of wage-earning classes, and that it does this by reason of its wastage and destruction, its feverish stimulation and its social aftermath.<sup>17</sup>

Nothing need be said of the great untabulated social losses—the unrecorded, unrecordable deductions from the well-being of the race—devastated areas, outright fatalities, the maimed and the mutilated, stricken homes, widowhood and orphanhood, the moral laxity and the religious unsettlement of nations warring and warred against, even that which to those who have consecrated their lives to the search for truth is the greatest injury of all—the undermining of intellectual idealism, the denial

of scientific verity, the mockery of world altruism. These woes may neither be inventoried nor tabulated. They make up a great total of ill-being or "illth," only to be left out of the reckoning from sheer lack of a common denominator. The world is the poorer for such calamities, and all who live in it suffer because they have happened.

It is with the direct palpable effects of war upon the well-being of wage-earning classes that our inquiry lies. In how far, if at all, is the toiler in the United States the worse for the events of the world convulsion?

The elements which make the laborer's well-being difficult and insecure in the passing of an industrial state from war back again to peace may be summarized as (1) unemployment, (2) wage reduction, (3) price inflation and, negatively, (4) the restricted social activities of the state.

(1) After-war unemployment is due in

part to the stoppage of war industries, in part to the demobilization of armed forces and war-time administration, in part to the restricted production consequent upon the reduced purchasing power of the wage-earners so discharged. Much of this is inevitable. Munition plants cannot continue making shells; nor emergency factories gas masks. Armies must be demobilized and administrative bureaus disbanded. The labor supply thus abruptly released cannot be, under the most favorable circumstances, immediately absorbed. The phrase "waiting jobs" is for any but the individual laborer a kindly figure of speech. Jobs cannot wait. They are either filled when vacated, or they cease to be. If they are filled, the return of the absentee involves a displacement of the temporary incumbent; if they have been abolished, restoration is uncertain and conditional.

Organized labor will struggle bravely, and in a measure successfully, against this drift. It will be able here and there to

substitute part-time employment of an entire labor force for outright unemployment of some part of that force. It will be able to resist unnecessary encroachment upon its wage scales, and most important of all it will be able to maintain its existence as an instrumentality for collective bargaining. But the larger penalties it cannot escape.<sup>18</sup>

(2) It is not only from the unemployment or reduced employment of demobilization that working class incomes are bound to suffer. Peace pricks the bubble of war gains, be they excess profits or bonus wages. With the nation's existence in the balance there is neither time nor warrant for that competitive higgling which in the long run is the safeguard of society. War loans and war taxes supply seeming limitless funds; and the government, always a generous employer, is, under the critical stress, less than ever disposed to drive a hard bargain. The rule

of commercial employment is different. The margin is scantier, the pressure stronger, the competition fiercer. Just as profits pass from the years of plenty to the years of famine, so the labor world confronts the changed conditions of a reduced social surplus and a more rigorous division.

(3) The hardships of unemployment and the suffering of falling wages are exaggerated by the vicious relation of war financing and credit expansion.<sup>19</sup> The result, as we have already noted, is a sharp, continuous, widespread rise in prices—wholesale and retail, commodities and foodstuffs—extending far beyond the range of those goods immediately subject to war demands and of those the supply of which has been reduced by war operations. Such rise will be restrained, but not prevented, with respect to a limited number of commodities by governmental price fixing. Yet the general trend is unaffected. With the termination of war dislocation this rising

movement is arrested and prices tend to decline. But the descent will be in the nature of gradual fall rather than abrupt drop—a fall held in check by the continuation of heavy government borrowing, and affecting wholesale prices first and retail living costs but slowly thereafter. The wage-earner is thus caught between the upper millstone of slackening employment and reduced wages and the lower millstone of sustained prices. Eventually equilibrium will return; but the interval is a costly and painful one, fraught with possibilities of enduring mischief as to living conditions and moral stamina.

(4) Unemployment, lower wages, threatened living standards are positive injuries. But the largest ill which the wage-earner will suffer from the economic sequel of war is negative—the impairment of the state's power to engage in those projects of social betterment which have become the distinguishing marks of economic progress. The



spread of education, the wiser provision for dependence, programmes of social insurance, plans for reclamation and conservation, the increase of public utilities, better highways, improved dwellings, more libraries and galleries—all that wise public policy might do to make residence in town and country more wholesome and more lovely; all these are deferred for decades to come by the incredible squandering of the world's wealth in war expenditure and the mortgaging of its future accumulation in war indebtedness. The injury done extends beyond the wage-earner, to his children and to his children's children. A fractional part of the billions that have been wasted might have realized for the present happiness and the future betterment of the world's masses things beyond our imagining. Rapine, murder, mutilation are the spectacular horrors. This is the real social loss of the war.

It is against this background that the present unrest of the laboring world must

be projected. Business arrest has brought with it discharge of workmen, part-time employment, lessened earnings and unchanged living prices. As industry struggles to readjust itself, the bolder enterprisers seek to achieve lower production costs through the fancied line of least resistance—resistance to demands for higher money wages. Beset from two quarters—lessened employment and wage loss—the laborer, remembering what he had during the war and how he won it, backs against the wall. His counter proposals are in lieu of labor discharge, shorter working hours; instead of reduction in real wages, lower profits and higher selling prices. The stage is set for industrial conflict.

In casting about for a wise social policy in this state of affairs, it is vital to remember that, although more frequent and perhaps more intense in periods of business change labor disputes are a consequence not of the recurring intensity, but of the

essential form of modern industry. Periods of readjustment offer greater occasion and tactical opportunity; they do not create real cause. The stirring of the wage-earner is an habitual element in modern industrial life—more conspicuous at certain times than at others, but always present.

Moreover, such discontent exists as a social phenomenon quite apart from the bitterness traceable to poverty, and from the unrest born of radicalism. The complaint of the working poor—those whose wage income is less than enough for decent and wholesome life—is a part of the larger problem of poverty. The discontent of working class radicals—those to whom social reconstruction seems practical and desirable—belongs to the discussion of economic specifics. The labor problem proper lies intermediate. It is constituted of the restlessness of working classes to secure more favorable terms of employment, when the impulse is neither the sting of poverty nor the lure of utopia.

The concern of society in this disquiet is great and direct. It operates as a repressive influence upon industry and enterprise. It entails heavy expenditure by workmen and employers in preparation for strife. It involves recurring strikes and lock-outs with enormous wastes of interrupted production and demoralizing toleration of violence and riot. It is the counterpart in the industrial world of militarism and warfare in international affairs.

Employers' associations and trade unions, the devices of collective bargaining, wage agreements, mediation and arbitration have affected the manner in which this strife is carried on; they have not removed its occasion nor prevented its renewal. Society is still harassed by the struggles of unorganized or organized laborers to secure what are or what are conceived to be more favorable terms of employment, in face of the resistance of individual or grouped employers.

The occasion of such disputes is various—


wage demands, union recognition, shorter hours, shop rules, jurisdictional conflicts. The United States Bureau of Labor classified the 36,757 strikes in the United States in the twenty-five years, 1881-1905, according to fourteen distinct or grouped causes, and the record of current strikes published by the same agency found some eleven causes responsible for 79 strikes in December, 1915.<sup>20</sup> The Massachusetts Bureau of Statistics assigned the 294 strikes occurring in that state in 1912 to seven principal and nineteen sub-grouped causes,<sup>21</sup> and the New York State Department of Labor similarly allotted the 124 disputes begun in 1914 to nine principal causes.<sup>22</sup>

If such elaborate classification be reduced to a simpler grouping—disputes due (*a*) wholly or in part to wage demands and (*b*) to other causes—we find that in the United States from 1881 to 1905, 40.7 per cent. of all strikes were attributable in whole or in part to demands for increased wages, and that the corresponding per-

centages for the strikes in the United States in December, 1915, in Massachusetts in 1912 and in New York in 1914 were 55.7, 53.4 and 36.3 per cent., respectively.

It thus appears that a very large proportion of the labor disputes with which an industrial community is beset have to do with wage demands. Over and above the conflicts growing out of class antagonism and personal bias, there is a chronic recurrence of industrial warfare because of an apparently irreconcilable difference as to a new rate of wages.

No real or lasting service to the cause of industrial peace is rendered by clouding this issue. Industrial distribution is in the last instance the oppoitionment of a definite product. The loaf is of given size; if a larger portion be assigned one claimant, a smaller remains for the other. It is a misleading half-truth to declaim as to the harmony of interest between labor and capital—as unsound in fact and as reactionary in effect as the contentions of



older generations that there was harmony between the traditional insistences of dogmatic theology and the modern disclosures of natural science. Certainly it is to the advantage of both contending parties that the loaf be larger—but to whatever size it may be augmented, division must ensue and the gain of one is the loss of another. In a word, absolute increase may for a time obscure; it cannot correct relative disparity.

The occasion for this insistence is the recurrent vogue of palliative devices. In the swift succession of changing fashion, patronal activities, bonus systems, scientific management, "instinct in industry" have figured in such advocacy far beyond their legitimate province, in attempted avoidance of the real issue.

The factors ultimately responsible for industrial clash are the lack of bargaining equality between employer and employed, the failure of prompt resort to arbitral

determination in labor disputes, and the absence of an accepted wage principle for arbitral use in wage issues. The situation is analogous to what might be expected to develop in conflicts of personal rights and property interests if one and the same party were habitually armed and the other bare-handed, and if the court to whose determination the controversy—through social intervention at the eleventh hour—was finally referred, should be governed in its decisions neither by statutory enactment, nor by common law, nor by judicial precedent.

In another place I have sought to make clear that the relatively weaker position in industrial bargaining of the individual wage-earner as compared with the capitalist employer can be corrected by the organization of the labor supply into a comparatively equal unit:<sup>28</sup>

“The necessity for concerted action on the part of the laborer has been recognized almost from the beginning of sound think-



ing in the field of economic distribution. Even before the advent of capitalism and the factory system, Adam Smith noted that 'tacit, but constant and uniform combination' of employers, and the consequent disadvantage of unorganized workmen in wage disputes.<sup>24</sup> With the repeal of combination laws a generation later, a narrow economic philosophy sought to justify the contemporary disadvantage of wage-earners in industrial bargaining by the concept of a wage fund, with its implication of a rigid predetermined rate of wages that neither trade unions nor collective action could affect. The reaction came, first, in admission of the actual achievement of trade-unionism, then in recognition of its tactical necessity in wage bargaining, culminating in radical reconstruction of the theory of wages. From the time of Longe and Thornton, 'the verdict of the economists,'<sup>25</sup> has been virtually unanimous in insisting that a necessary assumption of free competition in wage con-

tracting is the organization of labor for purposes of collective bargaining. In 1892 it was possible for a lay witness to testify: "After about three-quarters of a century of taboo, trade unions had now for a dozen years ceased to be regarded as associations of anarchistic criminals."<sup>26</sup> This has not involved approval of all the policies nor indorsement of many of the devices of modern trade-unionism. But there is essential agreement as to the primary contention, that collective bargaining is necessary for the workman to secure as wages at least that part of the product of industry which free competition tends to award him.

"Probably less than one-third of the industrial wage-earners of the United States are organized in form or in spirit for purposes of collective bargaining. The remaining two-thirds receive compensation for their services upon the basis of individual bargaining, ordinarily under terms of disadvantageous inequality on the part of the employee. If regard be had to the

entire body in receipt of wages, the percentage of organization is probably not greater than one-fifth.

“Under such conditions the wages of most workers are maintained above, or even at the level of, economic sufficiency only by the competition of employers and the relative scarcity of labor. To the extent that employers act in concert, tacit or avowed, or that the labor supply is congested locally or industrially, or that an industrial class have degenerated into parasitic dependence, the share of the wage-earner sinks to the poverty line. For the great body of those in receipt of wages, an effectively organized, intelligently administered trade-unionism offers the surest remedy against capitalistic exploitation and social parasitism. In so far as this protection does not exist, the toiler is exposed to oppression by the enterpriser, on the one hand, and to spoilation by society, on the other.”

Bargaining equality involves not only an arbitral tribunal but a principle of wage determination for the final settlement of industrial controversies not adjusted by competitive higgling. It is in this way that individual redress of injury has been displaced in the course of social progress by courts of justice, and that the wars of nations are about to yield to a league of states. In the absence of an arbitral court the outcome of the wage dispute is determined as in other forms of warfare by the relative strength and endurance of the contending parties. If there be a court and no code, the decision is in the nature of compromise—the usual procedure being the easy and workable device of “splitting the difference.” A decision on the merits of the case is impossible since no standard of reference obtains.

This has been the experience of those who have been brought face to face with the task of wage adjustment.<sup>27</sup> The Board of Arbitration in the 1912 controversy

between the Eastern Railroads and the Brotherhood of Locomotive Engineers sought in vain for "some theoretical relation" upon which to base their award, and ultimately took refuge in a makeshift compromise.<sup>28</sup> The sponsors of the "industrial constitution," devised in 1915 for the settlement of the bitter labor struggles of the Colorado Fuel and Iron Company, turned from "an unthinkable counsel of despair"—that "there is no way out except through constant warfare between Labor and Capital"—only to record the conviction that "the problem of the equitable division of the fruits of industry will always be with us."<sup>29</sup>

Economic science has been unable, up to the present time, to supply this deficiency. Since the day of Adam Smith every treatise on political economy has set forth, under the caption "theory of wages" some concept as to what part of the product of industry tends to be paid to the wage-earner under conditions of bargaining

equality. Such formulæ have ranged from "cost of subsistence" to "marginal productivity." But the wage doctrines of political economy still represent philosophical hypotheses. The lack and fault of statistical material, the tolerance and vogue of economic theorizing have hindered the analysis of actual wage rates and the recognition of a natural law of wages.<sup>80</sup>

Even had such a result been attained, even though we knew to what principle wages tended to conform—it is by no means clear that such a natural standard would be acceptable. If, for example, the contention of the Marxian socialists were true that normal wages in competitive industry approximate bare subsistence, it is incredible that any arbitral board would sustain this standard in case of wage dispute.

Opposed to the doctrine of natural law in wage determination is the principle of social expediency. Briefly stated, this maintains that the wages paid in modern industry should attain the level which will

realize the largest social good as constituted of the well-being of wage-earners, enterprisers and consumers, and that this criterion should determine arbitral awards in wage controversies. The essence and form of this socially desirable wage rate brings us to the crux of the problem.<sup>31</sup>

It is obvious, in the first place, that an identical rate paid in different occupations, on the one hand, or to different workmen in the identical occupation, on the other hand, is fanciful. A century and a half ago Adam Smith ascribed the difference in wages in various trades to the agreeableness or disagreeableness of the employments themselves, the easiness or cheapness of learning them, the constancy or inconstancy of employment, the small or great trust which must be reposed and the probability or improbability of success.<sup>32</sup> This analysis, with minor addition, still serves to explain and justify a differing social valuation of labor service in various occupations.

In much the same way all industrial observers have recognized varying degrees of energy, skill and intelligence as between laborer and laborer in the same occupation, for which society makes corresponding payment. The scale of wages thus represents a function of two variables. The labor force of an industrial community is distributed over a series of occupations of ascending social importance, while within each occupation the laborers are ranged in a gradation of personal efficiency.

There is thus (1) a basic wage, paid for unskilled service; (2) a trade gradation, adjusted to the social estimate put upon superior kinds of industrial work, and (3) a personal differential, measuring degrees of efficiency within each occupation.

Of these three constituents of real wages, the third element—representing individual differences—lies without the range of social concern. In the case of piece-work pay, the question does not even arise; differences in individual efficiency register



themselves automatically. In the case of time-work pay, the issue turns upon the wages demanded by the average workmen in the occupation—the “standard rate” of trade union practice, less than which no workman may accept but for more than which the exceptional artisan is free to engage.

Wage controversies and arbitral awards centre about the first two elements—the basic rate and the trade gradation. The essential questions are: what is the proper wage for unskilled day labor, and, this being determined, how much more than such minimum is the artisan in a skilled trade or occupation entitled to receive?

The principle which at this time seems to have most to commend it both from the standpoint of economic practicability and social advantage is the doctrine of a progressive standard of life, with a base line of minimum requirement. This means that a disputed wage scale should be determined by the arbitral body to which it has been

referred at that level which will permit the industrial group involved to maintain its accustomed standard of life—assuming this to be at least at or above a necessary minimum—together with some addition for the general social progress attained since the time of last fixture. As to the basic rate, the least skilled class of labor regularly employed in industry should be paid as wages at least enough to make possible, in the long run, decent, self-supporting existence for the average workman and those necessarily dependent upon him. As to the trade gradation, the more favorable standard of life enjoyed by any skilled group—as compared with the basic rate—should be retained as an approximate measure of the greater social utility of that particular service.

An arbitral board would thus refuse to sanction a reduction of wages below prevailing rates, if so determined, and would, on the other hand, award an increase demanded by reason of the greater money

cost of those things upon which the wage income is spent. In economic phrase, real wages would at least be maintained even though money wages be increased.

We have left unanswered the most perplexing element in the problem—what increase in wages may the laborer properly claim as his share in general social progress? The answer is easy when we have to do with a period of active business revival. Profits are then large, labor is in active demand, the industrial outlook is bright and wage increases are voluntarily granted or easily ceded in compromise amount.

Far more difficult of adjustment is the laborer's demand in times of normal rather than exceptional business activity. Granting the general propriety of an increase, the particular amount to be granted in each such case will stand in some definite relation to the heightened productivity of the industry as evidenced by larger profits, greater output, or lower prices. There is

no universal formula and the actual award will call for competent and painstaking arbitral determination. But the difficulties are of a kind with those with which jurisprudence has not hesitated to grapple, with substantial and acceptable social results.

The actual procedure implied in the foregoing may be summed up as follows: Every industrial dispute involving wage demands should be referred by pressure of public opinion and provision of positive law, to mediating effort and arbitral determination. The final arbitral award should be based upon the principle of a progressive standard of life. This implies: (1) there should be no sanction of wage reduction, other than the withdrawal in periods of business reaction of the bonus-like increases associated with abrupt business revival; (2) the wages of unskilled labor should be at least enough to maintain decent family existence; (3) the wages of more skilled groups of workmen should be enough to maintain the standard of life

enjoyed by the most favored groups of like social utility; (4) in the foregoing regard should be had to real, that is, commodity and service wages, and not to nominal, that is, money wages; (5) wage increases demanded on the score of general social progress should be granted in some relation to the heightened productivity of the industry in question.

The adoption of this program carries with it no rule-of-thumb solution of industrial strife. But for a considerable proportion of such disputes—probably no less than one-half—it offers in lieu of outright warfare or makeshift compromise an economically sound, socially acceptable principle of adjustment which arbitral discretion may forthwith apply and ultimately develop into a code of wage award. For the large proportion of labor controversies not turning upon wage demands, such a procedure will at least encourage like resort to arbitral determination and gradual acceptance of a socially serviceable principle of award.

In the matter of collective bargaining, in the arbitral determination of labor disputes and in the validation of the standard of life as a wage principle—the industrial experience of the war years have resulted in notable progress.<sup>33</sup> As to collective bargaining, the device of a local shop committee has been planted “so well and so broadly throughout industry—as hardly to seem eradicable.”<sup>34</sup> The arbitral adjustment of wage differences is in practice a necessary corollary of the waiver of primary economic weapons and of a joint covenant as to uninterrupted production. In one form or another such procedure obtained over a great part of war-time industry. Different in form and in effectiveness, marred by occasional refusal or non-compliance, the actual mechanism played an immense part in the industrial mobilization of the nation.

A somewhat less sweeping statement is possible as to the use in wage awards of a standard of life, turning upon a decent

subsistence minimum in the lower levels and upon the increased cost of living in the higher. The evidence is but partly collected and but imperfectly analyzed. But it is clear that in important awards, the Railroad Wage Commission award of April 30, 1918, and in the various awards of the National War Labor Board, the principle was definitely used as the basis of settlement.<sup>35</sup>

The war drum beats no longer—in the market place as in the battle ground. The strain has passed, and with it many of the old sanctions. There is the travail of readjustment, and keen competitive intensity instead of patriotic coöperation. In this industrial “Devil take the hindmost,” is the wage-earner doomed to lose a large part of his strategic gains—collective bargaining, arbitral adjustment, living wage? “Demand and supply” comes the grim answer from one quarter:

*“ And the kilns and the curt-tongued mills say Go.  
There’s plenty that can, if you can’t: we know.  
Move out, if you think you’re underpaid.  
The poor are prolific; we’re not afraid;  
Trade is trade.”*<sup>86</sup>

But the challenge clatters as an outworn creed, not to be reviled as “ a pig philosophy ”;<sup>87</sup> but to be calmly put aside as men give over things of a past day. A great captain of industry has spoken of “ the standpatters, who ignore the extraordinary changes which have come over the face of the civilized world and have taken place in the minds of men; who, arming themselves to the teeth, attempt stubbornly to resist the inevitable and invite open warfare with the other parties in industry; and who say, “ What has been and is, must continue to be—with our backs to the wall we will fight it out along the old lines or go down in defeat! ”<sup>88</sup>

Of another period of readjustment Francis Place wrote, in moving words, long after he had left its miseries behind: “ I have seen a vast many such, who when



the evil day has come upon them, have kept on working steadily but hopelessly, more like horses in a mill, or mere machines than human beings; their feelings blunted, poor stultified moving animals, working on, yet unable to support their families in anything like comfort; frequently wanting the common necessities of life, yet never giving up until 'misery has eaten them to the bone,' none knowing, none caring for them; no one to administer a word of comfort, or, if an occasion occurred which might be of service to them, none to rouse them to take advantage of it; all above them in circumstances calumniating them, classing them with the dissolute, the profligate, and the dishonest, from whom the character of the whole of the working people is taken." 89

Not the fear but the faith of men will keep society from such things in the coming years. Let so much at least be salvaged from the welter of the world's blood and treasure.

# THE SINEWS OF PEACE



### III

#### THE SINEWS OF PEACE

There is fervent agreement in the public mind as to the obloquy properly attaching to matters of taxation. Literature is illuminated by such objurgations and history has more than once been deflected by their entry. Something of this disfavor has grown out of the manner in which taxes, in times past, have been collected. Macauley declared that "a farmer of taxes is of all creditors proverbially the most rapacious,"<sup>1</sup> and Adam Smith, enriching philosophic calm with vigorous phrase, maintained as to tax-gatherers that "the uncertainty of taxation encourages the insolence and favours the corruption of an order of men who are naturally unpopular, even where they are neither insolent nor corrupt."<sup>2</sup>

Sometimes the particular form of tax

has been the object of wrath. The remarkable philosopher and scientist, member of that notable company of physician-economists in which Petty, Mandeville, Barbon and Locke figure, whose versatility is suggested by the mere signature to his "Lectures on the Elements of Political Economy" published in Columbia, S. C., in 1829—"M. D., President of the South Carolina College and Professor of Chemistry and Political Economy"—Thomas Cooper, taking a long back swing for a free trade clout, declared: "Suppose a man robbed, is he not the poorer? Why? Because he loses his money without receiving value in return. Where is the difference to the individual when he pays a tax? To be sure the equivalent is, or is said to be, the supply of national wants; but this extends no further than the smallest amount of taxation necessary for the purpose: all the rest is of the nature of robbery."<sup>3</sup>

So, too, the most competent writer on

American taxation has appraised in terms not conducive to popular regard the fiscal device upon which almost every State, city and minor civil division of the Union relies for its essential revenue: "It puts a premium on dishonesty and debauches the public conscience; it reduces deception to a system, and makes a science of knavery; it presses hardest on those least able to pay it; it imposes double taxation on one man and grants entire immunity to the next. In short, the general property tax is so flagrantly inequitable, that its retention can be explained only through ignorance or inertia."<sup>4</sup>

On the other hand, more than one lance has been broken in support of the social and economic advantage of taxation. Sometime the reported gain has been specific. David A. Wells tells us that when the internal revenue tax on distilled spirits was increased in 1862-65 from 20 cents to \$2 per gallon: "The popular hair preparations into which alcohol entered largely as

a constituent vanished from the market; and manufacturers of patent medicines and cosmetics generally abandoned their old preparations and adopted new ones"—and that: "The manufacturer of horse medicines, who used 50,000 gallons of spirits in 1863, woefully testified in 1865 that his business was destroyed."<sup>5</sup>

More often the imputed advantage has been general. Writers of the seventeenth and eighteenth centuries urged that taxes on the necessaries of life gave "a great stimulus toward an improvement in the condition of the laborer, in sobriety, carefulness and efficiency."<sup>6</sup> And to provide for the other contingency David Hume, writing in 1753, observed that: "Where taxes are moderate, are laid on gradually, and affect not the necessaries of life—such difficulties often serve to excite the industry of a people, and render them more opulent and laborious, than others, who enjoy the greatest advantages."<sup>7</sup>

Whatever illusions may have existed as

to taxes and disguised blessings were effectually dispelled by the fiscal experiences of the Napoleonic contest. In 1817 David Ricardo summed up the matter squarely in a dictum from which there has since been little dissent: "There are no taxes which have not a tendency to impede accumulation, because there are none which may not be considered as checking production, and as causing the same effects as a bad soil or climate, a diminution of skill or industry, a worse distribution of labour, or the loss of some useful machinery; and although some taxes will produce these effects in a much greater degree than others, it must be confessed that the great evil of taxation is to be found, not so much in any selection of its objects, as in the general amount of its effects taken collectively." <sup>8</sup>

The experience of the United States in matters of revenue and the obligations of the American citizen as to federal taxation



have been kaleidoscopic in change and tremendous in import since 1914. In these four years and a half the successive phases of American involvement in the world war—neutrality, belligerency, readjustment—have been as sharply defined and as clearly reflected in public finance as in national industry and in social economy.

From the outbreak of the war in August, 1914, to the entry of the United States into the struggle in April, 1917, our problem was to replace accustomed sources of revenue which, with the international blockade and the swift passing of Europe into an armed camp, had dried up almost over night, with new fiscal devices that would both supply the gap in the nation's budget and at the same time provide, even though inadequately, for possible eventualities in our relation to the international situation. From the events immediately preceding the passage of the joint resolution by Congress on April 6, 1917, declaring that a state of war with the Imperial Ger-

man Government had been forced upon the United States, up to the granting of the armistice in November, 1918, our concern was, first, to determine what part of the colossal expenditures which the Treasury was called upon to meet should be defrayed by taxation rather than by borrowing; and, second, to devise and impose the particular taxes necessary for this purpose. From the cessation of active hostilities through the signing of the formal peace treaty up to a point still in remote prospect, our task is and will be to provide revenue sufficient for the huge totals of war commitments and demobilization costs, and to do this with the economic life of the nation in the stress and travail of after-war readjustment.

Our minds have become so dulled to what a few years ago would have seemed incredible magnitudes that it is not easy to grasp the changes which the past four years have wrought in the nation's tax revenue. In the fiscal year 1913-1914 the

“ total ordinary receipts ” of the Treasury were \$734,673,166; in 1914-1915, \$697,910,827; in 1915-1916, \$779,664,552, and in 1916-1917, \$1,118,174,126. In 1917-1918 this had shot up to \$4,174,010,585, and in 1918-1919, had the war continued, the probable aggregate would have been \$8,000,000,000. Even with hostilities suspended before the fiscal year was half over, the actual receipts for 1918-1919 were some \$4,500,000,000. In other words, the country is now paying as much in taxation every eight weeks as it did, before the world was set ablaze, each year.<sup>9</sup>

Nor is the prospect of early or substantial relief encouraging. The Secretary of the Treasury estimates that for the fiscal year 1919-1920 taxation should supply \$5,200,000,000.<sup>10</sup> Many things, political and economic, may transpire to affect this forecast. But plan and fashion as we will, the country is in for a prolonged period of relatively heavy taxation.

There is no valid escape from this necessity. The homely rules of a safe private economy—spend less, earn more, or go into debt—are at bottom the maxims of secure public financing. Curtailment in expenditure, increase in revenue, incurring of indebtedness—exhaust the possibilities of sound public housekeeping.

We have already considered the vital importance of governmental retrenchment with regard to business readjustment. As a part of the country's financial program the relation is direct. The abrupt cessation of hostilities has left the Treasury burdened with commitments incident to a war economy and now devolving upon a peace budget. Even though the knife be applied swiftly and heroically, to a point beyond which injustice and hardship would be done, there will still remain extraordinary charges of war-incurred obligation. Moreover, the final settlement of returned peace carries with it new disbursement. The country can never hope to return to its old

seclusion in the family of nations. Larger responsibilities have been incurred, calling for heavy outlay in preparation. Even with cautious economy it seems certain that the most we can hope for will be some reduction in the amount of this prospective additional burden. There will be cheese-paring attempted in other directions, if only for sentimental effect. But the results are likely to be counterbalanced by the normal increase in governmental requirements.

If despite all practicable retrenchment the nation will be obliged to spend more even after the return of peace than it did before the advent of war, heavier taxation is inevitable—not indeed as severe as during the period of war disbursements, but substantially greater than in the pre-war period. The only alternative is a continuation of deficit financing. Professor Bastable has described popular borrowing as “an agreeable process.”<sup>11</sup> Two centuries ago Pope sang of

Blest paper credit! last and best supply! <sup>12</sup>

and this temptation to continue defraying some part of our after-war expenditure from the proceeds of further loans will inevitably present itself. But it is a vicious policy which pursued beyond the bounds of drastically restricted expenditures and maximum tax revenue, means only postponing the day of reckoning, with added penalties of rationed commercial credit and delayed deflation.

Called upon then, as the nation will be, in the coming years to contribute a much greater sum in taxation to meet an inevitably larger public expenditure, what attitude should intelligent citizenship assume both as to the general taxing policy to be pursued and as to the specific tax devices to be adopted.

In the first place, let us clear the foreground by a frank rejection of fiscal opportunism. We have not made very great progress in scientific knowledge of taxa-

tion. "It is here then that the most perfect knowledge of the science [political economy] is required," wrote David Ricardo to Hutches Trower<sup>13</sup>—and this perhaps explains our shortcoming. But some things we do know, and it behooves us to hold fast to that which we have.

An "agnostic" theory implying that any exact knowledge of tax incidence is hopeless, "a diffusion" theory setting forth that any tax will in the long run be evenly distributed—are veritable handmaidens of legislative disingenuousness, of administrative convenience or, more sinister, of class exploitation. If fiscal experience is to be jettisoned and all scientific doctrine to be abandoned, it is much better to do this under the time-honored dictum "pluck the goose with minimum squawk," or the Donnybrook Fair slogan, "when you see a head tax it."

As a matter of fact, there are certain well defined fiscal principles, justified by theoretical analysis and verified by histori-

cal experience, which can properly influence wise fiscal policy. They are not of that wrapped and tied quality for which the economic practitioner is always so pathetically eager, and which the economic scientist is ordinarily so resolutely unwilling to supply. But they indicate a true course, warning against reefs and shoals, and leaving the way open for precise reckoning.

In the first rank is the cardinal doctrine that tax revenue must ultimately come from accumulated capital, customary income or a new surplus made available by increased production. Of the three possibilities the third conforms closest to fiscal wisdom. Taxes which are finally paid out of accumulated capital or out of accruing income may be desirable in the interest of wealth diffusion or of social equalization. They will, to some extent, be inevitable by reason of the requirements of the exchequer. But in so far as they are used, the future productive power of the country is impaired as to



capital, and the present living standards of its citizenry reduced as to income. On the other hand, if an accompaniment of the taxation imposed be increased production there is constituted a new fund from out of which the requisition may be regarded as ultimately paid, with the further advantage of an enlarged national dividend.

On its face this smacks much of a counsel of perfection. Even if it were possible to find taxes which would neither encroach upon capital nor make inroads upon income but actually encourage greater industry and a larger national dividend, the chance of reconstructing an existing fiscal system to this end would be inconsiderable. For we are not permitted to write on Petty's "white paper."<sup>14</sup> Our system of taxation is, despite its abrupt twists, an historical product, largely determined by, as in turn it has largely determined, the nation's economic growth.

Complete revision may be fanciful. But we may reasonably hope to influence

amendment and addition and above all to deflect supplementary financing from unwise drift! Such negative service is no mean thing in a period of emotional urging and swift change. The state like the individual is tempted with get-rich-quick devices—fiscal nostrums, new and untried, or old and revamped. Herein lies the usefulness of a scientifically accredited, historically validated canon of taxation. If encroachment upon productive capital is economically hurtful, the state may well hesitate to impose a direct capital levy even for so worthy a purpose as the extinction of war incurred indebtedness. If deduction from income operate like any other economic drag to reduce the sum of social enjoyment and to check capital accumulation, sur-taxes cease at least to be fiscally virtuous in themselves. This is no final verdict against either a capital levy or the maximum schedule of an income sur-tax. Other considerations, political and social, will enter into play. Let us only be

sure that the economic element is given due regard, and that the course finally elected represents a deliberate calculus.

In matters of taxation the complement of sound incidence is wide distribution. The tax burden which is to be put upon us should not only be wisely but generally imposed. With mere revision of emphasis this may be read into Adam Smith's fourth maxim that "the subjects" of every state—rather than any particular group of them—ought to contribute to its support.<sup>15</sup>

Universality in tax contribution is commonly urged on civic rather than on fiscal grounds. Here as elsewhere mankind is peculiarly sensitive to any excitation of its "pocket nerve." In no way, it is contended, can the ordinary citizen be so effectually roused to a sense of political obligation or made to concern himself so intelligently with civic issues as by the regular presentation of a tax bill.

But on fiscal grounds alone a wide distribution of the tax burden, to the point even of universal contribution, will commend itself to an enlightened citizenry. No free people ever rebelled against evenly distributed taxation, whatever its absolute amount. Sir William Petty made this clear two centuries ago: "Let the tax be never so great, if it be proportionable unto all, then no man suffers the loss of any riches by it."<sup>18</sup> Democracy realizes, even though inarticulately, that where the gift, there the burden. It will chafe under a crudely imposed load; it will become bitter if there be gross inequality. But let the humblest tax-payer be assured that there is to prevail in the support of the state that principle which the progress of the race has taught him works out best in all associated effort—the rule of "tote fair"—and he will assume his quota with nothing worse than the degree of grumbling which in matters of taxation is the symptom of a decent self-respect.

The practice of tax exemption has undergone a curious cycle in the history of organized society. In the classical world the obligation of citizenship was military service, and tax liability the badge of servitude. The feudal polity had little occasion for compulsory revenue until the rise of statehood encouraged the commutation of service into charge. With the recognition of crown prerogatives and the sharper definition of class exemptions, the increasing fiscal needs of the state were transferred to the third estate. The dawn of the new industrial era, lighted by the fire of political revolution, found the main charge of state support everywhere resting upon the mass of common people.

The century that followed was destined to witness almost a complete reversal of the tendency. Justified by a political economy that made clear the futility of taxes upon minimum subsistence, inspired by a social humanitarianism that sought to compensate in dynamic vigor for belated

appearance, the reaction expressed itself in the middle of the century in the repeal of the English corn laws and in the general incorporation into tax codes of the principles of minimum exemption.

The propriety of group exemption once admitted, the enlargement of the class and the diversification of the warrant have followed. If toilers in receipt of bare living wages should pay no taxes whatever, certain sections of the country and particular classes of producers less preferred or less fortunate than others might hope at least to be relieved from additional burdens of taxation. Sectional diversity, congressional government and indirect taxation, involving "compensatory" imposts, have encouraged the tendency.

Up! up again! ye rents, exalt your notes,  
Or else the Ministry will lose their votes.<sup>27</sup>

The consequence has been to make the task of obtaining additional revenue less a matter of apportionment and distribution

than of finding a hapless group of taxables who can be noiselessly mulcted.

Like every device of fiscal preferment and class differential, tax exemption in this larger and less valid sense works its own undoing. The basis of public contribution is narrowed, sectional opposition is aroused, class hostility is accentuated and the whole process of public contribution is vulgarized.

Universality in taxation does not imply identical imposition nor even proportional contribution. From the time of Adam Smith fiscal justice has been conceived as tax payment according to ability.<sup>18</sup> The maxim that every man should contribute to the support of the state according to his faculty is embodied in our constitutions and bills of rights side by side with provisions to secure freedom of speech and trial by jury. Realized at first in a proportional levy upon the capital value of real and personal property, the diversity of

wealth forms and the increase of intangible capital evidences made of the general property tax an utterly inequitable device in developed industrial communities. Its crude injustice was only avoided by a subtle form of capitalization whereby intangible personal property acquired a higher capital value, relative to its net income, by reason of popular acquiescence in the escape from assessment and taxation—actual though illegal—of such evidences of ownership. Falling short even of proportional contribution, the road to reform blocked by rigid constitutional bars—direct taxation in the United States had drifted far in practice from the principle of payment according to ability which the framers of our political creeds in the flush of eighteenth century philosophy had so finely acclaimed.

The transition came with the successful entry of the federal government into the field of direct taxation—direct none the less though the word was inhibited. In lieu



of capital, income was taken as the criterion of economic ability. But of far greater importance, progressivity was accepted in place of proportionality as the theory of equal contribution.

Of the many definitions of progression in taxation none has the penetrating succinctness of John Stuart Mill's: "It means, apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his."<sup>19</sup> From "the early legislation of Solon down to the present time" progression has figured in fiscal practice. That which has been written for and against constitutes a veritable literature, the mere historico-critical examination of which at the hands of an accomplished student of public finance has required a stout volume of three hundred pages.<sup>20</sup>

As realized in the war revenue legislation of the United States progression as to

income, excess profits and inheritance taxes has meant the arrangement of the taxable basis into ascending groups and the imposition of successively higher percentages upon each group—with an allowance of the lower rates upon such parts of the basis as were included within the correspondingly lower groups. We have no means of knowing in how far the groupings and the rates represented a deliberate attempt to conform to the principle of identical sacrifice. It is certain that this consideration was not ignored. Bearing in mind the novelty of the endeavor, the urgency of the requirement and the hurriedness of the legislation—the results attained, in this particular at least, are entitled to something very much more than the reception accorded the war revenue measure as a whole.

The defect of progressive taxation is the difficulty of putting its principle into proper working effect in consequence of the varied sources of economic income and

of the lack of any practicable measure of personal sacrifice. Identity of sacrifice is an easy phrase—just as is “tote fair.” But how shall it be realized? What shall be the stages of progression and what the ascending percentages of the levy? If incomes of \$2,000 are to be taxed one per cent., is a corresponding burden upon incomes of \$5,000, two per cent. or three per cent., and upon incomes of \$25,000, five per cent. or twenty-five per cent.? Obviously these are not the ordinary difficulties of fiscal technique that may properly be left to the ingenuity and skill of the tax administrator. They fairly raise the question as to whether progression is not—*pace* the philosophers—“conceptual” rather than “real.” Grave obstacles such as these have led the financial expert—who has made the subject peculiarly his own—to conclude that although “progression of some sort is demanded from the standard of ideal justice, the practical difficulties in the way of its general application are well

nigh insuperable." And again, "it is doubtful whether greater individual justice will be attained by a system of progression than by the simple rule of proportion; and it is highly questionable whether the ideal advantages of progression would not be outweighed by its practicable shortcomings." <sup>21</sup>

The American citizen will be reluctant—unwilling, it might be safely ventured—to accept this conclusion. If it be true that "equality of taxation, as a maxim of politics means equality of sacrifice," and if equality of sacrifice entail in all modern industrial societies progressive contribution, fiscal progress will not be shunted on to a wrong track by reason of grades and turns. "This standard, like other standards of perfection," wrote Mill with a fine sanity, "cannot be completely realized; but the first object in every practical discussion should be, to know what perfection is." Knowing what perfection is—he might have added—men will not cease striving for it.<sup>22</sup>

The danger to be guarded against in the use of tax progression is that the device be extravagantly employed to accomplish other than fiscal ends—ends attractively set forth in such phrases as “diffusion of wealth” and “social equalization.” Progressive taxation is justified not on the ground that large incomes, huge industrial profits, great estates are a menace to the public, but on the theory that the ability to contribute to the support of the government grows more rapidly than the amount of the income or the size of the estate, and that only by graduated rates can approximation be had to identical sacrifice.<sup>23</sup>

All sound opinion is in agreement that the accumulation, even more the perpetuation of colossal fortunes is socially undesirable, and that a narrowing of the economic gulf would enhance the nation's well-being. But the remedy lies in preventive rather than in positive treatment. For the evil which already exists, the fiscal use of progression is likely to more than keep

pace with the healthy advance of social opinion as to wealth distribution. The "social equalization" theory of taxation is a Frankenstein which in these days is not likely to be invoked.

A further over-use of the restrictive possibilities of taxation has been in connection with its assumed check upon popular non-essential expenditure.<sup>24</sup> A glaring fact in the war experience of the United States as of every belligerent state has been the imperfect appreciation of the doctrine that national effectiveness means spending less, quite as much as producing more, and that every unit of productive force required in supplying dispensable needs—every ounce of raw material, fuel, convertible machinery engaged in making things and services without which we could subsist—even subsist comfortably—is just so much reduction of the nation's war power.

Much has been said and written of the usefulness of heavy taxation in war finance in correcting this tendency, and such is

undoubtedly the case if taxation be widely distributed and paid for from income. That part of the national dividend surrendered to the state in taxation which would otherwise have been needlessly consumed effects a corresponding release of productive energy for the national defense. But it is equally certain that the same result can attend wisely devised public borrowing and that the largest part of that which the Treasury receives from loans can come from the income rather than from the credit of those who subscribe to bonds. This is the distinction between "credit loans" and "savings loans." If bonds are paid for out of current income that would otherwise have been spent upon non-essentials the result is the same, as to the release of industrial labor and capital for war service as though this sum had been taken in taxation. Indeed, to the extent that the war taxes are of so restricted a kind and rest in the main upon so limited a class that payments will be effected by

the aid of bank loans or at the expense of further savings, there is strong likelihood that the resultant curtailment of unnecessary production will be less than that growing out of a widely distributed bond issue paid for out of current savings.

It is possible to apply this experience with advantage to the problem of after-war financing. We have already discussed the importance of public retrenchment and private thrift in relation to current expenditure. But the nation must also repay what it has borrowed. The more completely the processes of debt reduction and debt extinction can proceed by a diversion of income from spending to payment, the more rapidly will the wastage and wear of war be repaired. This is even more important if after-war reconstruction entail—as it is certain to do in this country or elsewhere—further funding and refunding operations. Unless there be a diversion of income—voluntary or enforced—from spending to debt discharge, the mischievous



war cycle of credit expansion and price inflation is likely to be again renewed.

Taxation as such offers no automatic escape from this evil. It would probably be better to continue our large debt intact with a very gradual amortization hereafter or to refund it at a lower interest rate by the continuing "over the counter" sale of popular bonds paid for from out the nation's income—than to attempt quick liquidation by drastic taxation certain to involve further resort to bank borrowing and credit expansion. Better than either of these is courageous but not reckless amortization by means of widely distributed, equitably imposed taxation—the incidence of which shall be upon increased production or at least current revenue and not upon working capital or bank reserves.

These, then, are the principles to which American revenue policy in the years that lie immediately before us should seek to conform and in the enforcement of which

the efforts of a wise citizenship may properly be expended: sound incidence, universal contribution and progressivity—taxes which shall fall, in so far as may be, upon an enlarged national dividend rather than upon productive capital or upon current income, which shall rest upon the entire citizen body, but with such a distribution of burdens as to require from every man—rich or poor, capitalist or wage-earner—a sacrifice of like relative intensity. However, we fall short, a fiscal program of this sort—of any sort—is infinitely better than opportunism or convenience. There is as definite a place for idealism in the economy of the state as in its government and in its administration. Fiscal justice is on all fours with political equality and civic integrity. It is not a corollary of democracy; it is democracy.

And now I am done. For my parting word, may I hark back again to Sir William Petty, the many-sided genius of late seven-

teenth century economics: "say I what I will or can, things will have their course, nor will nature be cozened: wherefore what I have written (as I said before) was done but to ease and deliver myself, my head having been impregnated with these things by the daily talk I hear about advancing and regulating Trade, and by the murmurs about Taxes, &c." <sup>25</sup>

"I wish for my own part there were no such thing as Political Economy," lamented Archbishop Whately—hastening to add that it was the occasion not the thing that he would have vanish. Only the *Spectator's* devil could transmute "Political Arithmetic" into "Poetical Arithmetic." <sup>26</sup> Ardent devotee that he was, Joseph Massie confessed that "it is not easy for a Man to figure to himself a literary Pursuit more disagreeable than is the Study of Commerce as a national Concern." <sup>27</sup> If much of what I have said has seemed dull, remember Whewell's solemn apology: "they are commonplaces which young men

of rank, such as those to whom these Lectures were addressed, ought to know, and which they were not likely to learn unless they were brought before them in some such way as this.”<sup>28</sup> Finally, if everything else fail, let there be solace in Walter Bagehot’s assurance that “no real English gentleman, in his secret soul, was ever sorry for the death of a political economist; . . . he may be useful, as drying machines are useful; but the notion of crying about him is absurd.”<sup>29</sup>



## NOTES

### I

<sup>1</sup>John Veitch, "A Memorial of Dugald Stewart," in *Collected Works of Dugald Stewart* (ed. Hamilton, Edinburgh, 1851-8), vol. x, li-iii.

<sup>2</sup>Sidney Lanier, "The Symphony" in *Poems* (New York, 1898), p. 60.

<sup>3</sup>John Rae, *Life of Adam Smith* (London, 1895), pp. 54-55.

<sup>4</sup>"Teaching and Thinking" in *Aequanimitas* (Philadelphia, 1904), p. 131.

<sup>5</sup>*The Education of Henry Adams* (Boston and New York, 1918), pp. 351-352.

<sup>6</sup>John Craig, *Remarks on Some Fundamental Doctrines in Political Economy* (Edinburgh, 1821), pp. 162-163.

<sup>7</sup>*An Inquiry into the Nature and Causes of the Wealth of Nations* (London, 1776); ed. Cannan (London, 1904), vol. 1, p. 1 note.

<sup>8</sup>*Ibid.*, vol. 1, p. 1.

<sup>9</sup>F. A. Walker, *Political Economy* (3rd edit., New York, 1888), pt. 1, chap. iii.

<sup>10</sup>Fred I. Kent, "Foreign Investments in their relation to the Future of this Country"; an address delivered before the Maryland Bond Buyers' Association, Baltimore, February 27, 1919.

<sup>11</sup>James Bonar, *Malthus and his Work* (London, 1885), book ii, chap. ii.

<sup>12</sup> *An Inquiry into the Nature and Causes of the Wealth of Nations* (ed. Cannan), vol. 1, p. 1.

<sup>13</sup> Ralph Waldo Emerson, *Journals, 1849-1855* (Cambridge, 1912), vol. viii, p. 389.

<sup>14</sup> *Thirteenth Census of the United States, 1910* (Washington, 1914), vol. iv, p. 53.

<sup>15</sup> This estimate of the number absorbed in specialized war industries can claim no higher warrant than that of "an intelligent guess."

<sup>16</sup> *The Financial Review, Annual—1918* (New York, 1919), pp. 70-71.

<sup>17</sup> "Report of the Secretary of the Treasury, 1918" in *Annual Report on the State of the Finances* (Washington, 1918), p. 4.

<sup>18</sup> "Letter from the Secretary of the Treasury to the Chairman of the Committee on Ways and Means," Washington, July 9, 1919.

<sup>19</sup> "Report of the Secretary of the Treasury," *op. cit.*, p. 5.

<sup>20</sup> John Hay, "Banty Jim" in *Poetical Works* (Boston, 1916), p. 13.

<sup>21</sup> *Monthly Labor Review*, August-October, 1919.

<sup>22</sup> *Bradstreet's*, September 27, 1919.

<sup>23</sup> "Circulation Statement" (Division of Loans and Currency, Treasury Department), May 1, 1917 and July 1, 1919.

<sup>24</sup> "Abstracts of Reports of Condition of National Banks," No. 106 (May 1, 1917); No. 119 (June 30, 1919).

<sup>25</sup> *Federal Reserve Bulletin*, May, 1917, p. 411-2; August, 1919, pp. 796-7.

<sup>26</sup> See the present writer's *War Borrowing: A Study of Treasury Certificates of Indebtedness of the United*

*States* (New York, 1919); also a paper on "Fiat Credit and High Prices," in *New York Times*, October 29, 1919.

<sup>17</sup> *War Borrowing*, chap. v ('The Price Level').

<sup>18</sup> *Essays on Political Economy* (ed. Wells; New York, 1877), pp. 72-74.

<sup>19</sup> The argument is forcibly presented in John M. Robertson, *The Fallacy of Savings* (London, 1892).

<sup>20</sup> John Hay, "The Mystery of Gilgal" in *Poetical Works* (Boston, 1916), p. 14.

<sup>21</sup> W. M. Thackeray, *The Book of Snobs*, chap. 33.

<sup>22</sup> George Chalmers, *An Estimate of the Comparative Strength of Britain* (London, 1782), p. 48.

<sup>23</sup> No. 200; October 19, 1711.

<sup>24</sup> Nassau W. Senior, *An Introductory Lecture on Political Economy* (London, 1827), p. 31; used again in Richard Whately, *Introductory Lectures on Political Economy* (London, 1831), p. 95.

<sup>25</sup> *Publications of American Economic Association*, vol. 1 (Baltimore, 1888), p. 10.

<sup>26</sup> Daniel Raymond, *The Elements of Constitutional Law and of Political Economy* (Baltimore, 1840), viii.

## II

<sup>1</sup> John Veitch, "A Memoir of Dugald Stewart," in *Collected Works of Dugald Stewart* (ed. Hamilton), vol. x, lxxiv.

<sup>2</sup> *Ibid.*, vol. x, lxxii.

<sup>3</sup> *Life and Letters of Maria Edgeworth* (ed. Hare, 1895), vol. 2, p. 65.

<sup>4</sup> *Autobiographic Recollections of George Pryme, Esq. M. A.* (Cambridge, 1870), p. 124. The allusion is to *Wealth of Nations* (ed. Cannan), vol. I, p. 96.



<sup>8</sup>Carlyle, *Past and Present* (1843), book iii, chap. ii.

<sup>9</sup>W. H. Mallock, *Labour and the Popular Welfare* (London, 1894), p. 308.

<sup>10</sup>J. Taylor Peddie, *Economic Reconstruction* (London, 1918), p. 180.

<sup>11</sup>For a dissenting argument characterized by such statements as: "Most employers are too busy and their time is too valuable to society to be spent on academic study of sociological questions. When the theorists mix in, they usually make a mess of it"—see Dorr E. Felt, "College Made Utopias and Labor Unrest" (1919).

<sup>12</sup>The argument of the following pages was presented by the writer in a public address on "War and Want," delivered in New York and Rochester in the winter of 1918.

<sup>13</sup>[Robert Owen], *A New View of Society* (London, 1813), pp. 20-21.

<sup>14</sup>MS. Note in Place's copy of Owen's *New View of Society*, in the present writer's library.

<sup>15</sup>Quoted by J. D. Rogers in the excellent memoir of Robert Owen in Palgrave, *Dictionary of Political Economy*.

<sup>16</sup>"War and Want"; see note 9, above.

<sup>17</sup>*The Labour Gazette*, February, 1918, pp. 52-53.

<sup>18</sup>I. M. Rubinow, "Dependency Index of New York City, 1914-1917," in *American Economic Review*, December, 1918.

<sup>19</sup>*Monthly Labor Review*, March, 1919, pp. 119-120.

<sup>20</sup>"War and Want"; see note 9, above.

<sup>21</sup>The present insistent demand of the stronger trade unions for a shortening of the working week is to be interpreted as an endeavor "to make the work go

round" now and hereafter, rather than as a deliberate limitation of output.

<sup>19</sup> See above, pp. 26-30.

<sup>20</sup> *Monthly Review of the Bureau of Labor Statistics*, February, 1916, p. 36.

<sup>21</sup> *Report on the Statistics of Labor* (Boston, 1912), p. 97.

<sup>22</sup> *Report of the Commissioner of Labor* (Albany, 1914), p. 224.

<sup>23</sup> See the present writer's *The Abolition of Poverty* (Boston, 1914), pp. 53-59.

<sup>24</sup> *An Inquiry into the Nature and Causes of The Wealth of Nations* (ed. Cannan), vol. i, p. 68.

<sup>25</sup> Sidney and Beatrice Webb, *Industrial Democracy* (London, 1897), Part iii, chap. i.

<sup>26</sup> Arnold Bennett, *These Twain* (New York, 1915), p. 233.

<sup>27</sup> See J. Noble Stockett, Jr., *The Arbitral Determination of Railway Wages* (Boston, 1918)—the brilliant essay of a gifted student cut off at the very threshold of a scientific career.

<sup>28</sup> *Eastern Engineers' Association* (1912), *Report of Board*, p. 47.

<sup>29</sup> John D. Rockefeller, Jr., *The Colorado Industrial Plan* (1916), pp. 13, 31.

<sup>30</sup> See a paper by the present writer on "Economic Theorizing and Scientific Progress," presented at the Twenty-ninth Annual Meeting of the American Economic Association.

<sup>31</sup> The succeeding argument was first presented by the writer in paper bearing the title of the present lecture ('The Laborer's Hire') read before the Economic Seminary of The Johns Hopkins University in 1914.

